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CENTRAL INTELLIGENCE AGENCY

Office of the Chief, Economic Research

Office of Research and Reports

Date 7 February 1955

MEMORANDUM TO THE CHIEF, ECONOMIC RESEARCH

Attention: Chief, Planning and Review Staff

SUBJECT: Transmission of Draft Report, Ch/E Project No. 42.638

Title: Soviet Trading Delinquencies

Author: [redacted] 25X1A

ENCLOSURE: Subject draft report (original and 2 copies).

1. Enclosure is forwarded herewith for review and publication. Recommended category: ☐ IM ☐ RR ☐ HR ☐ RA ☒ Other For Requestor

2. Statement of coordination attached, with initials of individuals and their units. No coordination

3. Arrangements for maps and/or graphics through St/PB with Cartographic Division. None

4. Recommended Dissemination: ☐ Standard ☒ Requestor ☐ US OFFICIALS ONLY ☐ EIC Subcommittee ☐ Other, foreign, etc. (attach list)

5. Has information on US military end products or manpower been used? Explain. No

6. Has direct use been made of the intelligence or information of another agency? Department of State

7. Have all sources been considered in the preparation of this report? No

8. Man-hours utilized by this division in producing this report: 139 Branches of other ORR Divisions contributing to this report, and (if available) man-hours utilized by each: _____, _____, _____, _____

9. Estimate Cards: ☐ Have been submitted to Central Economic Estimates File. ☐ Are attached. No estimates contained in this project

10. The analyst responsible for consultation is:

25X1A [redacted] (Name), Trade & Finance (Branch), 4280 (Extension)

11. Comments: 25X1A

Project delivered to [redacted] 9 Feb 55

Paper in [redacted] file 25X1A

25X1A [redacted]

for Chief, Services Division

The classification of this transmittal sheet will be changed to conform to the classification of the draft report which it covers.

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CENTRAL INTELLIGENCE AGENCY

Office of the Chief, Economic Research

Office of Research and Reports

Project Action Memorandum

Project No. 42.638

DATE: 15 December 1954

TITLE: Soviet Trading Delinquencies

REQUESTER: [redacted] 25X1A 25X1A

TERMS OF REFERENCE:
1. Per Case [redacted]
2. Use lowest classification, "unclassified" if possible.
3. Background information can be written separately at higher (Secret) classification.
4. Cite and analyze specific instances only.

RESPONSIBILITY:

		Man-Hours	Due Date	Concurrence (Initials)
Action Division:	D/S		7 Feb 55	
	S/TF	200		
Staff	: St/PR			
25X1A Project Monitor:	[redacted] 2803			

This project will not delay completion of currently scheduled projects.

APPROVED: [redacted] Ch/E

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Dated ~~4 Feb~~ 9 Feb 55

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MEMORANDUM FOR: [redacted]

ATTENTION : [redacted]

SUBJECT : Soviet (Bloc) Trading Delinquencies 25X1A

REFERENCES : (a) Case [redacted] Memo of 9 December 1954

(b) ORR Project 42.638; IP-383

1. The attached information has been prepared by the Economic Research Area of ORR in response to reference request.

2. Related information concerning Communist China was included in our previous report (IP-382) furnished you on 3 February.

OTTO E. GUTHE
Assistant Director
Research and Reports

Attachments

Filed in [redacted] File .25X1A

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(Bloc)

Soviet Trading Delinquencies

7 February 1955

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Certification of Classification of 42.638 (Soviet Trading Delinquencies)

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Soviet Trading Delinquencies

Summary and Conclusions

Free World countries have experienced difficulties in their trading relations with the Soviet Bloc. Some examples of these difficulties are: high prices of Soviet commodities; low quality goods; delays in trade transactions; lack of credit facilities; and inability or unwillingness to offer commodities desired by the Free World countries. Trade negotiations have been delayed for a long period or even broken off as a result of one or more of these problems. In many instances, Western countries have realized that planned levels of trade were unrealistic and trade could not be attained at the planned levels. A more realistic approach has resulted in a contraction of the planned volume of trade. However, in spite of these difficulties, Free World countries apparently have been sufficiently satisfied with this trade to continue trade relations with the Soviet Bloc.

An attempt to analyze the non-fulfillment of trade agreements by the Soviet Bloc countries is subject to a number of limitations. These trade agreements do not represent firm contracts or commitments. They merely authorize rather than guarantee the exchange of goods. It is difficult to assess the responsibility for the failure to implement an agreement. For instance, an apparent Soviet failure might have been caused by the unwillingness of Western businessmen to purchase Soviet commodities offered to them, rather than USSR failure to export them. Also, trade in commodities can take place under barter agreements or contracts which are outside of the trade agreement.

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Introduction

In 1954 the countries of the Soviet Bloc continued efforts to strengthen trade ties with the countries of the Free World. This effort was conducted largely through the negotiations of trade agreements. Particular interest was shown in the expansion of trade ties with Latin American countries. A number of trade agreements were signed between the countries of the Soviet Bloc and Latin America, several of them representing the first such agreements between these countries. The following countries signed agreements with Soviet Bloc countries representing new relationships in 1953 or 1954: Brazil signed compensation agreements with Hungary and East Germany; Paraguay signed payments agreements with Hungary and Czechoslovakia; and Uruguay signed agreements with the USSR and East Germany. These trade negotiations have probably yielded some propaganda gains to the Soviet Bloc, particularly in the underdeveloped countries.

The Free World countries have encountered trading difficulties, in large part, because of Soviet Bloc reluctance to offer many export commodities in Western markets on terms which meet price and quality competition of Western suppliers. Nevertheless, the Bloc countries continue to emphasize the possibilities of large increases in East-West trade. It is the aim of this report to present the delinquencies of the Soviet Bloc in its trade with Free World countries. The presentation consists of two parts: 1) the difficulties of trading with the Soviet Bloc and 2) the non-fulfillment of trade agreements by the Soviet Bloc countries.

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Difficulties of Trading with the Soviet Bloc

Greece

Greece has experienced some trouble in her trading relations with the USSR. Greek traders have complained of the high prices charged by the USSR, the lack of credit facilities and Soviet delays in fulfilling trade transactions. The Greek-USSR trade agreement of July 1953 continuously showed a credit balance in favor of Greece. This balance was not covered by comparable Soviet exports because of the high prices of commodities offered by the Soviet Union. The price of Soviet timber, for example, was 17% higher than the most expensive timber offered by other European countries. However, even in cases in which lower prices were offered, the failure of the Soviets to grant credit facilities has involved additional charges rendering the net prices higher 1/.

Japan

Several factors have hampered Soviet-Japanese trade negotiations. Some Japanese trading firms have complained about the inferior quality of Sakhalin coal, one of the principal exports to Japan by the USSR. The firms demanded compensation for the coal because the steel firms to which the coal had been supplied requested cancellation of contracts due to the inferior quality of the coal 2/. Further negotiations for coal exports were held up pending settlement of this problem. The complaint was partially settled when the Soviet Union promised to make compensation at the rate of $5.80 per ton. In spite of this compensation, the deliveries of poor Sakhalin coal have raised Japanese doubts as to whether they can import good quality coal from the USSR.

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Lumber trade negotiations have been difficult because of the great gap between the price demanded by the USSR and the price demanded by the Japanese. The Soviets are asking $15.50 per cubic meter f.o.b. for lumber, while the Japanese lumber industry is prepared to pay only $5.00 3/. Although the USSR has lowered the prices of some commodities, notably coal and cotton, the relatively higher prices of Soviet merchandise continues to hamper Soviet-Japanese trade talks.

Egypt

There has been some dissatisfaction expressed over the quality of Soviet/Rumanian petroleum products imported by Egypt under a barter agreement of March 1954. The first two shipments received were not acceptable for distribution on the market, and consequently were discharged into the Government refinery for further processing 4/. The opinion has been expressed that the Egyptians have entered into an agreement which will be very costly and that they will end up paying well above world prices for the petroleum products, rather than the price publicized as being 10-15% below the world market price 5/. Another factor has been that the rate of arrival of Soviet/Rumanian products has been 50% less than originally anticipated under the agreement. The long delays in Soviet shipments and the fact that the gasoline being produced by local refineries is sufficient to meet the requirements of the countries has influenced the Egyptian government to cancel the remainder of the gasoline under the contract. However, the quantity of kerosene to be imported from the USSR and Rumania will be increased by an amount equal to the cancelled gasoline 6/.

Western nations have found that, although the USSR has quoted petroleum

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prices f.o.b. Constanza which are lower than US Gulf port prices, the prices are no bargain because of high demurrage and other transportation costs. Tanker delays in Constanza have been largely responsible for the increased costs. Recently a Norwegian ship was held up for a week in Constanza and then had to sail only half-full. Several Finnish tankers have been held up in Constanza waiting to load petroleum products [7].

India

Several firms in India have encountered trading difficulties with the USSR. Ispahani, Ltd., has refused an order for the purchase of shellac by the USSR because the USSR representative offered a price below the market price. Bharat Industries, Ltd., importer of tractors and spare parts, has decided not to trade with the USSR again because the goods could not be passed by the Indian Customs as a result of mistakes made in the shipping documents issued by USSR agencies [8].

Iceland

A significant factor in Free World trading relations with the Soviet Bloc is the danger of dependence on the USSR as either an import or export market for essential commodities. Under the USSR-Icelandic trade agreement of August 1954 Iceland is to receive almost all her petroleum requirements from the Soviet Union. However, few petroleum deliveries had been made by November 1954. It was feared that the failure of the USSR to meet petroleum delivery schedules would cause petroleum shortages [9]. Such a situation would force Iceland to take emergency measures to alleviate the shortage and illustrates the dangers of dependence on the USSR.

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In the period July 1953 - July 1954 agricultural exports comprised 96% of total Danish exports to the USSR [10]. Based on January-May 1954 data the USSR emerged as Denmark's second most important customer for meat and butter [11]. After the break-off of trade negotiations in July 1954 for the renewal of the trade agreement, however, the USSR showed no interest in the procurement of meats and butter from Denmark. The break-off resulted from Soviet insistence that Denmark deliver to the USSR two ships, the types of which are embargoed under COCOM regulations. The USSR expressed the willingness to sign an agreement for a 12-month period which would more than double the exchange of goods planned under the previous agreement, but delivery of the two tankers was clearly set down as a condition for signing the agreement [12].

Official trade statistics show that Danish trade with the USSR has dropped considerably since the expiration of the agreement on 30 June 1954. Danish exports to the USSR came to only 2.0 million kroner in July and 0.8 million in August against a monthly average of about 19 million during the January-June period [13]. Reports have been received which have indicated that the officials of the Danish Ministry of Agriculture were quite concerned over the possible loss of the USSR as an export market for Danish meat and butter [14]. It appears that the political pressure brought to bear on Denmark with respect to the two tankers has been extended, to a certain extent, to current trade. Reports recently appearing in the Danish press indicate that a slight revival of Danish exports to the USSR may be expected soon, although there are no indications that the sale of meat and butter will be of the magnitude of the previous year.

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Australia

In April 1954 the USSR broke off diplomatic relations with Australia over the "Petrov Affair". Before the break-off the Soviet Union was a fairly regular buyer at the Australian wool sales. In view of the Soviet's position as an important buyer, consideration was given to the fact that the USSR's withdrawal might have a serious effect on the market 15/. Immediate effects on the Australian market tended to be eliminated by the fact that the date given as the cessation of USSR purchases of wool coincided with the close of the wool season. The USSR has resumed buying wool on the Australian market and trade observers believe that Russian demand will determine whether prices will hold at current levels during the first quarter of 1955. In the middle of December 1954 at several Australian markets prices tended to be firm when the USSR was buying and appeared to fall off when the USSR was inactive. A fairly sustained demand by the United Kingdom and Western Europe was not sufficient to compensate for this price fluctuation 16/.

Finland

After the war the Finnish metal and shipbuilding industries were greatly expanded to meet Soviet reparations. With the end of reparations, trade with Russia has continued at an increasing rate because Russia has provided the only market for the products of these high-cost industries. Although the recently signed five-year trade pact has provided some relief to the high-cost metal industries by continuing to provide a market for these products, there is no reason to believe that the Soviets would hesitate to play off the Finnish metal industry against that of another country should the opportunity occur.

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In fact, in the negotiations for the 1954 trade agreement, the Finns had it impressed upon them that they would have to face increased competition for metal products in the Soviet market from Western countries [17]. A comparable situation has arisen in the Finnish shipbuilding industry. The five-year trade agreement provides for shipyard products to comprise 37.2% of total Finnish exports in contrast to 32.8% of total exports under the 1954 agreement [18]. However, in 1953 Finland sold fewer ships to the Soviet Union than it had in 1952, partly because the USSR could buy them more cheaply in Denmark [19]. There is no assurance that this element will not occur in future Finnish-USSR trade relations.

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Non-fulfillment of Trade Agreements by Soviet Bloc Countries

It is important to preface this section with several remarks. Soviet Bloc trade agreements with Free World countries do not represent firm commitments or contracts. They merely constitute a framework within which further negotiations for contracts can take place between Western businessmen and Soviet Bloc trading organizations. The commodity exchange lists in these agreements only represent targets within which trade may be attained and not the volume of trade which will materialize.

Latin America

The first year of the USSR-Argentina trade agreement expired 31 August 1954. The Soviet Union failed to ship nine commodities and fell considerably short in the shipments of five other commodities, particularly crude oil and coal. Russian shipments of petroleum products exceeded the quota. Total USSR shipments in the category "tool steels and other metal products" are estimated to have amounted to less than 5-10% of the amount set in the agreement. However, although shipments of pork, preserved meat, mutton and lard exceeded the quotas, Argentina did not export any quantities of five commodities and shipments of two commodities fell below the quota [20/].

There has been no indication of the purchase by Argentina of any sizeable amount of Soviet capital goods under the much-publicized $30 million credit. An Argentine technical mission visited Moscow to inspect various types of machinery, and although favorably impressed with some of the equipment, returned without concluding any contracts [21/]. Although the terms of the trade agreement were not fully implemented, it appears that actual trade for the year 1954 will

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greatly exceed actual trade for the year 1953. The agreement was extended for another year in August 1954, indicating Argentina's continuing interest in trade with the USSR.

Implementation of trade agreements between countries of the Soviet Bloc and Latin America have been poor. Fulfillment of Argentina's trade pacts with the Bloc declined from 43% in 1950 to 38% in 1952, while the decrease for Brazil was from 56% in 1951 to about 20% in 1953 [22]. Even though Argentine and Brazilain trade pacts with the Soviet Bloc have not been fully implemented, the increase in the number of trade agreements between these countries appears to have been a contributing factor in the increase in actual trade. Argentina's trade with the Bloc in the first half of 1954 amounted to $93,222,000 as compared to only $30,623,000 for the year 1953. Argentina's trade with the USSR in the first half of 1954 alone amounted to $53,962,000 as compared to $11,461,000 for all 1953. Brazil's trade with the Bloc in the first half of 1954 amounted to $20,809,000 compared to $20,297,000 for the whole year 1953 [23].

Greece

The Greece-USSR trade agreement which expired 28 July 1954 continuously showed a credit balance in favor of Greece. At the expiration of the agreement Greece was unwilling to renew the agreement unless a more realistic approach was taken. The agreement was extended to 28 July 1955 through an exchange of letters, but the revised commodity lists only envisage trade transactions totalling $10.0 million compared to a total of $20.0 million under the previous agreement [24]. In 1953 Greece concluded agreements with the Soviet Bloc for the exchange of goods totalling $32,000,000. But during 1953 Greece imported

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only $1.5 million worth of goods from the Soviet Bloc and exported only $4.0 million worth of goods [25]. Although Greece has expressed dissatisfaction with the manner in which the Soviet Bloc fulfills their trade agreements, these trade pacts have been renewed on schedule. These difficulties have not caused a cessation of trade relations with the Soviet Bloc.

Sweden

Under the 1954 USSR-Sweden trade agreement the USSR had to make payments in currency to balance the clearing account. Limited range of Soviet exports acceptable on the Swedish market and increased Swedish exports to the USSR resulted in a credit balance in favor of Sweden. A payment in sterling and dollars of Kr. 40 million by the USSR in May 1954 almost balanced the clearing account.[26] Sweden's credit balance with the USSR as of 30 June 1954 was Kr. 10 million. In the negotiations for the 1955 agreement the Soviets have appeared to be unwilling to make dollar and sterling payments. Owing to payment difficulties and inability or unwillingness of the Soviets to provide the goods desired by Sweden it is believed that the new protocol will result in a contraction of trade to about one-half to three-fourths of 1954 trade [27].

Finland

Finland consistently has had a credit surplus in her trading relations with the USSR. The Soviet Union in February 1954 agreed to pay for part of Finnish trade balance in 1954 in gold andforeign currency. This arrangement, under which a part of the anticipated Finnish trade balance will be settled in gold and foreign currency, was made a part of the 1956-1960 agreement signed in July 1954. In recent years similar surpluses have lain idle in the form of Finnish

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ruble credits or have been worked off in third-country arrangements. Such an arrangement was used in the transactions with Brazil for the re-export of Soviet wheat [28]. There is little doubt that these transactions represented a substantial loss for Finland and were undertaken solely for the purpose of utilizing Finland's credit balance with the USSR.

Italy

The USSR offered substantial quantities of petroleum products, platinum, ferromanganese, asbestos, paraffin and manganese and chrome ore at low prices in an effort to reduce the clearing deficit with Italy which amounted to $20,000,000 as of 8 June 1954 [29]. These products were offered because of the USSR's recent failure, due to high prices, to sell a consignment of hard wheat to Italy. The USSR has offered these commodities, particularly petroleum products, to a number of Western countries in an attempt to offset the decrease in traditional grain exports and to facilitate increased imports from the Free World countries.

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to Chief, ST/PC

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